

EXHIBIT HDATE 1/29/13HB 2

Commissioner of Securities and Insurance

Office of the Montana State Auditor
2015 Biennium Budget Presentation



About the Montana State Auditor

- The Montana State Auditor does not audit the state
- By law, the Auditor is Montana's Commissioner of Securities and Insurance (CSI)
- The CSI is a criminal justice agency charged with regulating two of the largest industries in Montana
- Revenue from insurance and securities taxes and fees makes the CSI the third largest contributor to the state's general fund



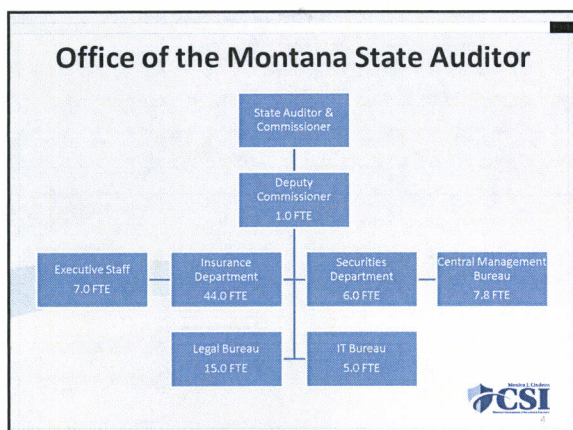
Revenue for Montana

- The CSI generates revenue for Montana's general fund and a variety of other special revenue accounts
- In FY 2012, the CSI raised more than \$91 million

FY 12 Revenue – At a Glance

General Fund – Insurance	\$60,197,469.44
General Fund – Securities	\$7,093,832.96
Securities Restitution Fund	\$9,538.79
Insurance Fee Account	\$5,976,086.32
Securities Fee Account	\$6,063,203.66
Captive Account	\$76,574.37
HMK Plan	\$10,380,570.51
Insurance Policies Fees	\$1,295,363.00





Central Management Bureau

7.8 FTE

- Provides human resource, accounting, budget and administrative support for the agency to fulfill the agency mission
- Includes:
 - Mail room
 - Front desk
 - Accounting
 - Human Resources

CSI

PL 1001: Rent Increase

- Adds state special revenue for increased office rent
- The current lease does not include inflationary adjustments for rent
- When the lease expires, the CSI estimates an increase of up to 5% on January 2015 for the last half of FY 2015

FY 2014	\$2,309
FY 2015	\$2,309

CSI

PL 1004: Central Management Continuing Education

- Elected official request to fund continuing education and training for CSI central management staff
- Funding will allow central management staff to attend accounting and procurement training offered through organizations like GAO and NAIC

FY 2014 \$33,915

FY 2015 \$33,915



NP 1006: Market Adjustments

- This request corrects position salaries that are furthest from the market and have the greatest vulnerability for recruitment and retention issues
- Brings staff that are below 85% of market to 85% of market

FY 2014 \$183,797

FY 2015 \$183,797



Information Technology Bureau

Dawn Harmon, Manager

5.0 FTE

- Responsible for technical support, agency IT infrastructure maintenance, website frameworks, software development, disaster recovery, and cyber security
- Provides IT oversight and guidance to ensure the most cost effective use of CSI's technology products and services



NP 1005: IT Systems Replacement

- This decision package:
 - Places CSI IT infrastructure on the state's standard IT replacement cycle
 - Funds an agency-wide modernization of the outdated and unsupported scanning system currently in use at the CSI
 - Funds an agency-wide modernization of the outdated and unsupported central application system currently in use at the CSI

FY 2014 \$493,685

FY 2015 \$276,946



Legal Bureau

Jesse Laslovich, Chief Legal Counsel

15.0 FTE

- Provides legal interpretation of the Securities Act and Insurance Code, as well as the applicable administrative rules
- Monitors national securities and insurance related class actions for their potential impact and fairness to Montana consumers
- Leads criminal and administrative action against violations of the Securities Act and Insurance Code



Investigations Bureau

Mike Anderson, Bureau Chief

5.0 FTE

- Investigates complaints and/or suspected violations of Montana's insurance code
- Investigates theft, forgery, deceptive practices, common schemes, fraudulent insurance claims
- When investigations are complete, cases are sent to legal bureau for prosecution



SECURITIES DEPARTMENT

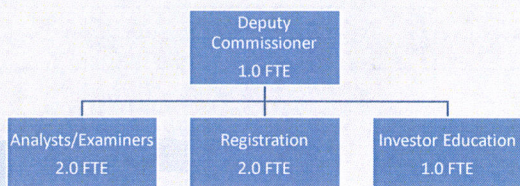
Lynne Egan, Deputy Securities Commissioner

6.0 FTE

- Protects investors
- Promotes uniformity among the states in securities regulation
- Encourages capital investment in Montana



Securities Department Structure



Purpose

- The Securities Department serves every Montanan that has a:
 - retirement account
 - investment account
 - college savings plan
 - other type of investment
- ****It is estimated that at least 60% of Montana households have at least one investment account.****
- Ensures the securities issuer, the firm and the firm's representatives meet the licensing and registration standards set by the legislature



Highlights – FY 12 & 13

- The Securities Department brought in \$13,147,775 in revenue in FY12, most for the general fund
- Total expenditures for FY12 were \$887,715
 - For every \$1.00 spent regulating the securities industry in the last fiscal year, the CSI brought in \$14.81 in revenue
- Ordered violators of the Montana Securities Act to return over \$20 million to Montanans
- Fined these wrongdoers nearly \$380,000
- Hosted more than 100 investor education programs throughout the state



PL 4002: Biennial Contract Exams

- Adds \$65,000 each fiscal year for contracted services to examine broker-dealer firms, broker-dealer firm branch offices, and investment advisor firms.
- The cost of these exams is reimbursed by the company being examined as allowed by 30-10-210, MCA

FY 2014	\$65,000
FY 2015	\$65,000



**PL 4003: Securities Department Legal FTE
(Nick Mazanec)**

- Funds continuation of a legal FTE funded from a one-time appropriation in the last legislative session
- From Nov. 2010 through Oct. 2012, this position had primary responsibility of over 200 matters
- This position brought over \$100,000 in fines imposed and premium taxes collected and returned over \$684,000 in restitution to Montana victims

FY 2014	\$92,111
FY 2015	\$91,966



PL 4004: Rent

- Adds state special revenue for increased office rent
- The current lease does not include inflationary adjustments for rent
- When the lease expires, the CSI estimates an increase of up to 5% on January 2015 for the last half of FY 2015

FY 2014	\$1,649
FY 2015	\$1,649

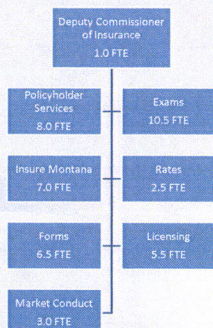


INSURANCE DEPARTMENT

Gregory Dahl, Deputy Insurance Commissioner



Insurance Department Structure



Decision Package 3013**Rent**

- Adds state special revenue for increased office rent
- The current lease does not include inflationary adjustments for rent
- When the lease expires, the CSI anticipates a 5% increase on January 2015 for the last half of FY 2015

FY 2014	\$ 7,008
FY 2015	\$ 7,008

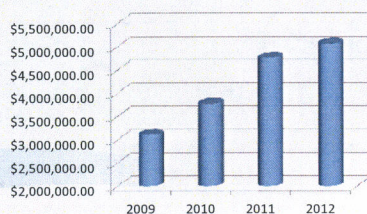


Policyholder Services Bureau

Barb van der Mars, Bureau Chief

- Protects Montana consumers from unlawful insurance business practices.
- Conducts statewide consumer outreach and education to insurance consumers, medical providers, and senior citizens



PHS - Highlights**Monetary Recoveries**

- Assisted 1,500-2,000 consumers complaints against insurance entities for violations of Montana law, and handles 35,000-40,000 telephone inquiries per year



Market Conduct Bureau

Carol Roy, Bureau Chief

- Verifies through on-site exams that claims are paid correctly, coverage is issued timely and other company practices and procedures are in place
- Conducts market analysis and market conduct annual statement processes to ensure market compliance.
- Examines domestic insurance companies for compliance with insurance code at least once every five years



PL 3010: Market Conduct Continuing Education

- Elected official request to fund continuing education and training for CSI market conduct staff
- Market conduct staff must complete continuing education and training to maintain accreditation with the NAIC

FY 2014 \$18,800

FY 2015 \$11,900



PL 3011: In-house Market Conduct Exams

- The CSI is responsible for performing regular market conduct examinations of domestic insurers
- These market conduct exams will be initiated internally and the requested funds will be used for travel to perform the examinations

FY 2014 \$ 26,400

FY 2015 \$ 18,500



PL 3012: Biennial Market Conduct Exams

- Adds spending authority for contracted services to perform insurance company market conduct examinations
- The cost of the exam is billed to the companies being examined – this DP simply provides spending authority
- As it appears in the governor's budget, PL 3012 includes the base (\$794,543.75) and the present law adjustment
- The actual present law adjustment to spending authority for contracted market conduct exams is as follows

FY 2014	\$ 100,000
FY 2015	\$ 100,000



Licensing Bureau

Jeannie Keller, Bureau Chief

- Handles all insurance licensing and renewal transactions for over 80,000 active licensees, including individual producers and agencies
 - There are no licensing fees for resident producers and business entities
- Administers an industry outreach program designed to educate and support the industry
 - Dedicated employee on the road visiting industry personnel



Continuing Education Program

- Ensures all licensed insurance producers, consultants and adjusters are up-to-date with current industry information and standards
- Supports licensees in their efforts to remain compliant
- Along with Advisory Council, the program evaluates and approves courses which insures availability across the state
- 35% increase in number of course submissions between 2010 and 2012



PL 3003: Insurance Agent Outreach

- Adds \$15,000 in state special revenue funding each fiscal year for industry outreach travel
- Outreach will be expanded to include rural communities
- Due to vacancies in the base year, all necessary travel costs were not included

FY 2014	\$15,000
FY 2015	\$15,000



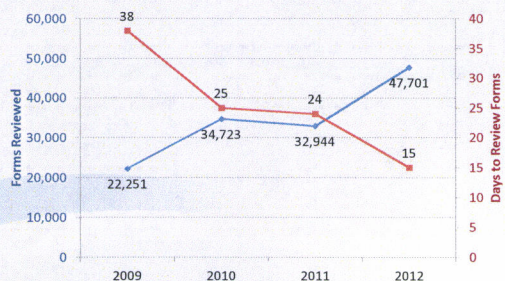
Forms Bureau

Rosann Grandy, Bureau Chief

- Reviews all insurance policy and certificate forms for compliance with Montana law
- Approximately 50,000 forms were reviewed in FY 12
- The review of insurance forms is important to make sure Montana consumers are provided the protection and insurance benefits required by law



Form Review at the CSI



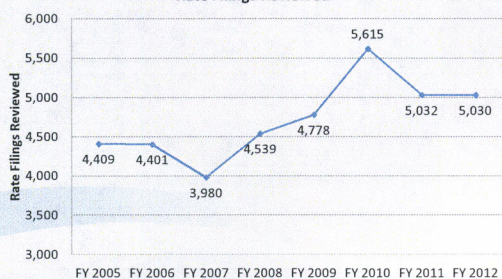
Rates Bureau

Mari Kindberg, Bureau Chief

- Reviews the premium rates charged by insurers to ensure that rates are not inadequate, excessive or unfairly discriminatory
- The CSI has the legal authority to review rates on all lines of insurance except certain life and health lines
- Evaluates the workers' compensation insurance market
- Provides technical expertise for the CSI on matters before the Montana State Board of Hail Insurance



Rate Filings Reviewed



PL 3004: Actuarial Review

- Adds state special revenue to fulfill the requirements of HB 334 passed by the 2011 Legislature, which requires the financial and compliance audit and rate review of the State Fund
- The CSI must report any concerns or recommendations based on the review to the Governor, the Legislative Audit Committee, and the Economic Affairs Interim Committee (EAIC)
- The cost of the initial State Fund review had to be absorbed by the CSI, limiting the depth of the review

FY 2014	\$ 75,000
FY 2015	\$ 75,000



Examinations Bureau

Steve Matthews, Bureau Chief

- Ensures insurance companies authorized to operate in Montana possess the financial capacity to pay claims
- Claims paying ability is monitored through financial analysis and on-site examinations
- Assists consumers by providing financial information on insurance companies
- Licenses insurance companies, third party administrators, premium finance companies, medical care discount card companies, and other insurance related entities



PL 3005: Traditional In-house Exams

- Adds spending authority to cover the cost of travel and supplies for in-house examinations of traditional insurance companies
- Spending authority will cover the cost of three farm mutual exams, which will require two examiners as well as some travel for the examiner supervising contract examiners
- Costs associated with the exams are billed to the company – this adjustment simply provides spending authority

FY 2014	\$ 33,700	(Base = 23,515.57)
FY 2015	\$ 33,700	



PL 3009: Biennial Financial Exams

- According to 33-1-401, MCA, "The commissioner shall examine the affairs, transactions, accounts, records, and assets of each authorized insurer as often as the commissioner considers advisable. The commissioner shall examine each authorized insurer not less frequently than every 5 years."
- The cost of the exam is billed to the companies being examined – this proposal simply provides spending authority for contract examinations
- As it appears in the governor's budget, PL 3009 includes the base and the present law adjustment

FY 2014	\$367,500	(Base = 180,896.80)
FY 2015	\$365,000	



Captive Insurance Program

- Captive insurance companies are formed and wholly owned by the businesses, associations, and groups that they insure
- 114 captive companies are currently domiciled in Montana (34 newly licensed captives in 2012)
- In 2013, Montana captive insurance companies will pay approximately \$1,000,000 in premium tax
- Captive companies generate economic activity including work for other professions and industries in Montana



NP 3006: Captive Insurance FTE

- Adds funding for a new captive examiner FTE
- Captive insurance is a rapidly growing industry in Montana, with the number of licensed captives nearly doubling in the last year alone
- An additional FTE will allow CSI to maintain the fast, efficient service that has become the hallmark of Montana's program

FY 2014	\$64,736
FY 2015	\$60,091



PL 3007: Captive In-house Exams

- Adds spending authority to cover the cost of travel for in-house examinations of captive insurance companies
- CSI plans to perform 20 pure captive exams and four risk retention groups
- Costs associated with the exams are billed to the company – this adjustment simply provides spending authority
- As it appears in the governor's budget, PL 3007 includes the base and the present law adjustment

FY 2014	\$20,300	(Base = 3,410.40)
FY 2015	\$20,300	



PL 3008: Captive Regulation and Supervision

- Per 33-28-120, MCS, the captive account provides funding to regulate and promote captive insurance in Montana
- The account is funded with 5% of the premium taxes, fees and assessments collected from captives
- Unused funds revert to the General Fund
 - In FY12 the CSI spent \$26,069.41 and transferred \$50,625.09 to the General Fund
- Given expected growth in the number of captive insurance companies domiciled in Montana, the Commissioner expects to collect about \$85,000 in FY 2014 and \$95,000 in FY 2015

FY 2014	\$85,000
FY 2015	\$95,000